

FRANK V. CAHOUE

<p style="text-align: right;">Page 50</p> <p>1 A. No.</p> <p>2 Q. Dozens or --</p> <p>3 A. A dozen.</p> <p>4 Q. Seeing this document today, does this refresh</p> <p>5 your recollection that you knew something about</p> <p>6 the potential acquisition of Graduate back in</p> <p>7 August of 1996?</p> <p>8 A. Not really.</p> <p>9 Q. While you were on the board of AGH but before</p> <p>10 you were on the AHERF board, would you from</p> <p>11 time to time speak with Mr. Abdelhak on the</p> <p>12 phone or in person outside the context of</p> <p>13 actual formal board meetings?</p> <p>14 A. I would have to say yes. I can't recount</p> <p>15 the --</p> <p>16 You know, I can't remember specific</p> <p>17 conversations, but I'd have to say yes.</p> <p>18 Q. Could you tell me basically what kinds of</p> <p>19 things you would talk to him about?</p> <p>20 A. The hospital.</p> <p>21 Q. Do you recall the first time you met</p> <p>22 Mr. Abdelhak?</p> <p>23 A. No.</p> <p>24 Q. Did you know him prior to your becoming a board</p> <p>25 member on AGH's board?</p>	<p style="text-align: right;">Page 52</p> <p>1 MR. RESTIVO: Thank you.</p> <p>2 MR. FRIESEN: In fact, my first</p> <p>3 question would be, once Mr. Cahouet has had a</p> <p>4 chance to look at the document, whether he</p> <p>5 recalls ever seeing it before.</p> <p>6 - - - -</p> <p>7 (The witness reviewed the document.)</p> <p>8 - - - -</p> <p>9 THE WITNESS: No, I don't recall.</p> <p>10 BY MR. FRIESEN:</p> <p>11 Q. If you could go to the second page of the</p> <p>12 document, JB 00791 --</p> <p>13 A. Yes.</p> <p>14 Q. -- at the top it says AHERF consolidating</p> <p>15 statement of operations for the three months</p> <p>16 ended September 30th, 1997.</p> <p>17 A. Uh-huh.</p> <p>18 Q. And some of this is hard to read, but I'll tell</p> <p>19 you what it says.</p> <p>20 About halfway down it says, net</p> <p>21 incomes/loss on the left.</p> <p>22 A. Uh-huh.</p> <p>23 Q. And then on the right that number, I will tell</p> <p>24 you, is \$42,571,000 for a net loss for that</p> <p>25 three months.</p>
<p style="text-align: right;">Page 51</p> <p>1 A. Not really. There may have been some time gap</p> <p>2 there, but I didn't have a social relationship</p> <p>3 with him.</p> <p>4 Q. You can put that aside. Let me show you a</p> <p>5 document that has previously been marked as</p> <p>6 Exhibit 2101.</p> <p>7 - - - -</p> <p>8 (Deposition Exhibit No. 2101</p> <p>9 previously marked for identification.)</p> <p>10 - - - -</p> <p>11 MR. FRIESEN: This is a document with</p> <p>12 the date October 28th, 1997, and it says AHERF</p> <p>13 consolidated financial statements,</p> <p>14 September 30th, 1997.</p> <p>15 MR. RESTIVO: And again, in fairness,</p> <p>16 in completeness to the witness, would you tell</p> <p>17 him the source of this document or what the</p> <p>18 Bates stamp means.</p> <p>19 MR. FRIESEN: The source of this</p> <p>20 document is not the files of Mr. Cahouet.</p> <p>21 That's all I can tell you right now.</p> <p>22 MR. RESTIVO: And it does not appear</p> <p>23 to be the files based on a prior document or</p> <p>24 anything that Mellon Bank produced?</p> <p>25 MR. FRIESEN: That is correct.</p>	<p style="text-align: right;">Page 53</p> <p>1 A. Uh-huh.</p> <p>2 Q. Does that bring it --</p> <p>3 MR. COGAN: That's the number on the</p> <p>4 far right?</p> <p>5 MR. FRIESEN: Right.</p> <p>6 MR. COGAN: What was it, 42,971?</p> <p>7 MR. FRIESEN: 571.</p> <p>8 BY MR. FRIESEN:</p> <p>9 Q. I'm not saying you knew this or got this</p> <p>10 document or anything else, but I would just</p> <p>11 like to know whether you recall knowing in</p> <p>12 October of 1997 that there was such a net loss</p> <p>13 for AHERF as a whole.</p> <p>14 A. No, I don't recall. I'm at a little bit of a</p> <p>15 disadvantage, because I can't read your</p> <p>16 headings here.</p> <p>17 Q. Which headings?</p> <p>18 A. Well, western region --</p> <p>19 Q. Right.</p> <p>20 A. Eastern region?</p> <p>21 Q. Right.</p> <p>22 A. What's this next one?</p> <p>23 Q. Those are various SCHC --</p> <p>24 Those are various subsidiaries or</p> <p>25 entities within AHERF, and the one I was</p>

14 (Pages 50 to 53)

FRANK V. CAHOUE

<p style="text-align: right;">Page 142</p> <p>1 The majority of your time that you</p> <p>2 served as a trustee with an AHERF entity was at</p> <p>3 AGH, the Allegheny General Hospital. Is that</p> <p>4 correct?</p> <p>5 A. Say that --</p> <p>6 Repeat that question.</p> <p>7 MR. FRIESEN: Objection.</p> <p>8 MR. RESTIVO: I'm going to object,</p> <p>9 also, to the form of the question. I think</p> <p>10 it's pretty clear that he was on the board of</p> <p>11 AGH beginning in 1993, and that he didn't go on</p> <p>12 the board of AHERF, wasn't named to the board</p> <p>13 of AHERF, until January 5, 1998. Those dates</p> <p>14 are those dates.</p> <p>15 MR. COGAN: Okay. And really I</p> <p>16 wanted to try to establish that his role with</p> <p>17 AHERF, the parent, was, in fact, quite limited.</p> <p>18 MR. FRIESEN: I would object.</p> <p>19 MR. COGAN: Well, do I understand,</p> <p>20 Mr. Cahouet, that the first actual AHERF board</p> <p>21 meeting that you attended was in April or March</p> <p>22 of 1998?</p> <p>23 THE WITNESS: That's what the record</p> <p>24 says.</p> <p>25 MR. FRIESEN: Objection. I guess I'm</p>	<p style="text-align: right;">Page 144</p> <p>1 you.</p> <p>2 MR. FRIESEN: I don't have anything</p> <p>3 further, so we're all free to go. Thanks very</p> <p>4 much.</p> <p>5 MR. RESTIVO: We do not waive</p> <p>6 signature. We'd like to see the transcript,</p> <p>7 review it for any possible errors, and sign it.</p> <p>8 THE VIDEOGRAPHER: Being there's no</p> <p>9 further questions, this deposition is ended at</p> <p>10 three o'clock.</p> <p>11 - - -</p> <p>12 (The proceedings were concluded at 3:00 p.m..)</p> <p>13 - - -</p> <p>14</p> <p>15</p> <p>16</p> <p>17</p> <p>18</p> <p>19</p> <p>20</p> <p>21</p> <p>22</p> <p>23</p> <p>24</p> <p>25</p>
<p style="text-align: right;">Page 143</p> <p>1 not supposed to object to an answer.</p> <p>2 BY MR. COGAN:</p> <p>3 Q. And during your tenure as a member of the AHERF</p> <p>4 board, did you ever serve on the finance or</p> <p>5 audit committee of that board?</p> <p>6 A. Not to my recollection.</p> <p>7 Q. Do you recall during any time between 1993 and</p> <p>8 1998 meeting in executive session with AGH's or</p> <p>9 AHERF's auditors?</p> <p>10 A. 1993 and what?</p> <p>11 Q. And 1998.</p> <p>12 A. Anytime in 1998?</p> <p>13 Q. Yes, and say prior to the bankruptcy in July.</p> <p>14 Do you recall any meetings in executive session</p> <p>15 with the auditors?</p> <p>16 A. I can't remember.</p> <p>17 Q. Do you have any recollection of the outside</p> <p>18 auditors ever requesting a meeting in executive</p> <p>19 session with any committees of the board of</p> <p>20 AGH?</p> <p>21 A. No. I don't have any recollection. I'm not</p> <p>22 saying they didn't. I just don't have any</p> <p>23 recollection.</p> <p>24 MR. COGAN: Mr. Cahouet, I told you</p> <p>25 I'd try to keep it short, and I'm done. Thank</p>	<p style="text-align: right;">Page 145</p> <p>1 COMMONWEALTH OF PENNSYLVANIA) CERTIFICATE</p> <p>2 COUNTY OF ALLEGHENY) SS:</p> <p>3 I, G. Donavich, RPR, CRR, a Court Reporter and</p> <p>4 Notary Public in and for the Commonwealth of</p> <p>5 Pennsylvania, do hereby certify that the witness,</p> <p>6 FRANK V. CAHOUE, was by me first duly sworn to</p> <p>7 testify to the truth, the whole truth, and nothing</p> <p>8 but the truth; that the foregoing deposition was</p> <p>9 taken at the time and place stated herein; and that</p> <p>10 the said deposition was recorded stenographically by</p> <p>11 me and then reduced to printing under my direction,</p> <p>12 and constitutes a true record of the testimony given</p> <p>13 by said witness.</p> <p>14 I further certify that I am not a relative or</p> <p>15 employee of any of the parties, or a relative or</p> <p>16 employee of either counsel, and that I am in no way</p> <p>17 interested directly or indirectly in this action.</p> <p>18 IN WITNESS WHEREOF, I have hereunto set my hand</p> <p>19 and affixed my seal of office this 6th day of March,</p> <p>20 2004.</p> <p>21</p> <p>22 _____</p> <p>23 Notary Public</p> <p>24</p> <p>25</p>

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FRANK V. CAHOUE

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1 COMMONWEALTH OF PENNSYLVANIA) E R R A T A
2 COUNTY OF ALLEGHENY) S H E E T

3 I, FRANK V. CAHOUE, have read the foregoing
4 pages of my deposition given on Wednesday, March 5,
5 2004, and wish to make the following, if any,
6 amendments, additions, deletions or corrections:
7 Page/Line Should Read Reason for Change
8
9
10
11
12
13
14
15
16
17
18
19

20 In all other respects, the transcript is true and
21 correct.

22 _____
FRANK V. CAHOUE

23 Subscribed and sworn to before me this
24 _____ day of _____, 2004.

25 _____
Notary Public
AKF Reference No. 79731

Camp Dep.

IN THE UNITED STATES DISTRICT COURT FOR THE
WESTERN DISTRICT OF PENNSYLVANIA

- - - -

THE OFFICIAL COMMITTEE OF)
UNSECURED CREDITORS OF)
ALLEGHENY HEALTH, EDUCATION &)
RESEARCH FOUNDATION,)

Plaintiff,)

-vs-

Civil Action
No. 00-684

PRICewaterhouseCOOPERS, L.L.P.)
Defendant.)

- - - -

VIDEOTAPE DEPOSITION OF: BRIAN W. CAMP

- - - -

DATE: June 28, 2004
Monday, 10:00 a.m.

LOCATION: MANION McDONOUGH & LUCAS
14th Floor
U.S. Steel Building
Pittsburgh, PA 15219
412-232-0200

TAKEN BY: Defendant

REPORTED BY: JoAnn M. Brown, RMR, CRR
Notary Public
AKF Reference No. JB81435

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1 1785.
 2 A. Okay.
 3 Q. And, again, we're looking at Section 1 which
 4 includes the most significant issues with
 5 respect to the credit addressed in this credit
 6 review, is that right?
 7 A. Yes.
 8 Q. And if we look at the third bullet point from
 9 the end under that section, that paragraph
 10 begins -- you've written, The individual
 11 hospitals of the Delaware Valley group are
 12 currently experiencing staff reductions to
 13 offset an AHERF reported \$6 million decrease in
 14 reimbursement. Overcapacity can also be
 15 singled out for the current market situation.
 16 Did I read that correctly?
 17 A. Yes.
 18 Q. If we flip to page 891 -- with the Bates ending
 19 891, if you look at the second bullet point on
 20 that page, which is, again, a continuation
 21 under the heading Operating Performance --
 22 A. Okay.
 23 Q. -- it again says, The individual hospitals of
 24 the Delaware Valley group are currently
 25 experiencing staff reductions to offset an

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1 AHERF reported \$6 million decrease in
 2 reimbursement. And then it says, Also
 3 contributing to this reduction was
 4 overcapacity.
 5 A. Okay.
 6 Q. Is that correct?
 7 A. Yes. That's what I see.
 8 Q. Do you recall in this time frame that AHERF's
 9 Delaware Valley group affiliates were
 10 experiencing layoffs?
 11 A. No, I don't. Before I came here and read this,
 12 I really didn't remember what the Delaware
 13 Valley group was. So, no, all I can really say
 14 is what I'm reading.
 15 Q. I'm sorry. I didn't mean to interrupt you.
 16 A. That's okay.
 17 I was just saying all I can really
 18 remember about the Delaware Valley group is
 19 what I'm reading actually right here.
 20 Q. Do you recall that AHERF had affiliates in the
 21 Delaware Valley?
 22 A. In reading this, I can see that. Before, I
 23 couldn't have told you what the Delaware Valley
 24 was, but in reading this, clearly, the Delaware
 25 Valley has affiliate hospitals, it appears.

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1 Q. Having looked at this, you know that AHERF had
 2 affiliates in the Delaware Valley, is that
 3 correct?
 4 A. Yes. That's what this says.
 5 Q. Flip back to page 30891.
 6 A. Okay.
 7 Q. This is the portion of the document with
 8 Ms. Mammarella's signature at the end, correct?
 9 A. 30891?
 10 Q. I may have a pagination problem here.
 11 A. Okay.
 12 Q. Sorry. I directed to you the wrong page.
 13 30839 --
 14 A. 839.
 15 Q. -- is the page that we need.
 16 MR. UNICE: 839?
 17 MR. SMITH: Yes.
 18 A. Okay.
 19 Q. And this is the section of the document that I
 20 believe was authored by Ms. Mammarella, is that
 21 correct?
 22 A. Yeah, I'm not sure, but her name is at the end
 23 of the section, so I believe it was.
 24 Q. In the paragraph at the top of that page, it
 25 says, While cost savings of approximately \$40

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1 to \$50 million through headcount cuts have been
 2 achieved so far, (specifically a six percent
 3 reduction in the work force, or 1,200 jobs,
 4 primarily in Philadelphia), such expenses still
 5 have negatively impacted the organization's
 6 operating results as much more restructuring is
 7 needed. Did I read that correctly?
 8 A. Yes.
 9 Q. And the next sentence says, AHERF management
 10 initially stated that the staffing cuts and a
 11 20 percent pay cut imposed upon executives
 12 throughout its system were due to the state's
 13 mandatory shift of Philadelphia's Medicaid
 14 patients into managed care and on the federal
 15 government's attempts to rein in on Medicare
 16 spending. Did I read that one correctly?
 17 A. Yes. That's what I see.
 18 Q. Do you recall any discussions with anyone in
 19 the Health Care Lending Group with respect to
 20 layoffs by AHERF of 1,200 employees amounting
 21 to a six percent reduction in the work force?
 22 A. No. I remember no layoff talks.
 23 Q. Do you know whether those layoffs referenced at
 24 page 30839 are the same staff reductions that
 25 you were referring to at pages 30886 and 30891,

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1 the two paragraphs that we read from your
2 section immediately preceding?
3 A. No, I don't recall. I can read. I don't
4 recall explicitly. In reading it, it looks
5 like they may be referring to the same thing,
6 but I'm not sure, because I don't use the same
7 language that's used here.

8 What was the second page that you're
9 referring me to?

10 Q. Of your section?

11 A. Yeah, my document.

12 Q. 30891.

13 A. 891.

14 Q. And the section we're looking at is the second
15 bullet point.

16 A. Okay. I don't remember, but it appears to be
17 talking about the same thing.

18 Q. I'm going to hand you what's previously been
19 marked as Exhibit 1776, which is a reprint of
20 an article from The Philadelphia Inquirer dated
21 October 18, 1997 entitled Explaining Why The
22 Ax Fell For 1,200.

23 As part of your responsibilities in
24 monitoring health care credits, would you keep
25 apprised for press reports addressing the

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1 entities for which you did credit analyses?

2 A. In general, I wouldn't say I read all the
3 papers from the different cities, like, I don't
4 remember this article, but I would say I would
5 have attempted to stay as apprised as I could.

6 Q. Did you say you would have attempted to stay as
7 apprised as you could?

8 A. Yeah, I would have sought out whatever I could
9 have found, but I don't recall reading this.

10 Q. This particular newspaper article?

11 A. Yeah.

12 Q. Do you see underneath the headline, Explaining
13 Why The Ax Fell For 1,200, the sub-heading
14 there says, Allegheny Hospital's chief
15 executive calls the layoffs unavoidable. He
16 disputes a view that faults the company's
17 aggressive acquisitions and spending. Did I
18 read that correctly?

19 A. Yeah. That's what I see.

20 Q. I know you said you don't recall this article
21 specifically.

22 A. Yeah.

23 Q. Do you recall seeing any other press accounts
24 that faulted AHERF's aggressive acquisitions
25 and spending for the layoff of 1,200 employees

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1 that's being reported here?

2 A. No. I know from the sentences in the
3 paragraphs you read me out of here, that the
4 Delaware Valley group is referring to a group
5 of hospitals in Philadelphia, which I didn't
6 quite remember before I came here, and this is
7 also referring to, it looks like, job cuts in
8 that group of hospitals in Philadelphia, but I
9 don't really recall. That's pretty much what I
10 basically recall about it. I really didn't
11 remember the Delaware Valley group until we
12 just read about it.

13 Q. Do you remember the Allegheny General Hospital
14 Obligated Group?

15 A. Yes, I remember Allegheny General Hospital.

16 Q. Okay. And what do you remember about that
17 obligated group?

18 MS. WYRICK: About that what?

19 MR. SMITH: Obligated group. I'm
20 sorry.

21 A. Oh, obligated group?

22 Q. Yeah.

23 A. No, I remember --

24 MR. UNICE: Object to form.

25 A. I remember doing -- I remember the hospital. I

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1 couldn't tell you what was in the obligated
2 group.

3 Q. Okay.

4 A. Okay?

5 Q. And what do you remember about Allegheny
6 General Hospital?

7 A. Just, in and of itself, that I believe I did a
8 credit report on Allegheny General Hospital.

9 Q. Okay. And just to make it clear, because I
10 think my first question we might have passed
11 each other a little bit, do you remember the
12 Allegheny General Hospital Obligated Group?

13 A. No, I remember the hospital.

14 Q. And why do you think you remember the hospital?

15 A. Because I --

16 MS. WYRICK: Object to that.

17 A. I guess my general -- since it's been so long,
18 I tend to remember the bigger -- the actual
19 company underlying. I don't remember, like,
20 how it was structured, an obligated group, and
21 Delaware Valley is just groupings of company.
22 I don't remember how they were grouped, but I
23 generally remember the hospital.

24 Q. Do you remember Elkins Park Hospital?

25 A. No, not at all.

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1 Q. -- did you seek the help of others in
 2 understanding the different components of the
 3 financials that you thought were important to
 4 your project?
 5 A. Oh, did I ask questions of others?
 6 Q. Yes, sir.
 7 A. I would have assumed I would have asked
 8 questions of anybody that previously had the
 9 account, and then as I don't really remember,
 10 I'm telling you what I would assume I would
 11 have done.
 12 Q. Well, I don't want you to do that.
 13 A. Okay.
 14 Q. I don't want you to assume.
 15 A. I don't remember who I would have asked
 16 questions to.
 17 Q. Okay. Fair enough.
 18 I'm going to focus now on the audited
 19 financial statements that PNC apparently did
 20 have at its disposal in this time frame.
 21 A. Right.
 22 Q. Do you have an understanding of what the term
 23 clean opinion means in the context of a
 24 financial statement?
 25 MR. SMITH: Object to foundation.

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1 A. No, I don't remember.
 2 Q. Do you recall the term unqualified opinion?
 3 MR. SMITH: Object to foundation.
 4 A. No, I don't.
 5 Q. Do you have an understanding of who AHERF's
 6 auditors were in the 1997 time frame?
 7 A. No, I don't.
 8 Q. I want to show you a document to maybe refresh
 9 your memory.
 10 A. Okay.
 11 Q. Turn to Bates 30915 in Exhibit 1785.
 12 A. Okay.
 13 Q. Tell me when you're there.
 14 A. I'm there.
 15 Q. This is a spread for AGH, correct?
 16 A. Correct.
 17 Q. At the top of the document, about four lines
 18 from the top, there is listed auditors,
 19 Coopers & Lybrand. Do you see that?
 20 A. Yes, I do.
 21 Q. Does that refresh your memory as to the AHERF
 22 system's external auditors were in that time
 23 frame?
 24 A. Yes, it does.
 25 Q. Did you have any personal interaction with any

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1 employees of Coopers relating to AHERF during
 2 your tenure with PNC?
 3 A. No, I did not.
 4 Q. Do you understand that the -- let me ask you a
 5 different way.
 6 What did you understand the auditors'
 7 role to be in connection with the issuance of
 8 financial statements?
 9 MR. SMITH: Objection.
 10 A. I would have assumed that their role is to
 11 audit the financial statements before they came
 12 to me. That's why I valued audited financial
 13 statements above draft.
 14 Q. Okay. I want to break that down a little bit.
 15 A. Okay.
 16 Q. You said you would have assumed. Do you not
 17 have a current understanding sitting here today
 18 of what your --
 19 A. Yes, that's my current understanding.
 20 Q. Okay. Why would it be important for you in
 21 reviewing audited financial statements to have
 22 an independent auditing firm review them?
 23 MR. SMITH: Objection.
 24 A. For a standard format, to make sure that the
 25 information there meets some standard other

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1 than just somebody pulling something off a
 2 spread sheet.
 3 Q. You mentioned earlier today a term called GAAP
 4 or G-A-A-P?
 5 A. Um-hum.
 6 Q. Do you recall that?
 7 A. Yes.
 8 Q. Did you have any understanding as to what the
 9 auditors' responsibilities were regarding
 10 compliance with GAAP principles?
 11 MR. SMITH: Objection.
 12 A. No, I don't recall that.
 13 Q. Now, in the course of your review of audited
 14 financial statements, if the auditors had
 15 discovered what they considered to be GAAP
 16 violations in the information that AHERF
 17 management had provided to them, would you have
 18 wanted to know that?
 19 MR. SMITH: Objection.
 20 A. Yes.
 21 Q. Why is that?
 22 A. Because, again, it goes back to my remembrance
 23 of audited statements and prizing them above
 24 draft. The benefit of the audit statements is
 25 that I get all the verbiage that comes in the

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1 audited statement to read above just generally
2 a spread sheet that comes when it's a draft.
3 Q. And what comfort, if any, did that type of
4 verbiage give you?
5 MR. SMITH: Objection.
6 A. A comparison kind of a feel that somebody had
7 reviewed this and audited against some
8 standard, again, other than just somebody's
9 personal spread sheet that they were giving me.
10 Q. And the standards you were referring to were
11 the GAAP principles we talked about?
12 MR. SMITH: Objection.
13 A. Yes, that's as I remember it.
14 Q. If the auditors, during the course of their
15 audit work at AHERF, had discovered what they
16 believed to be material misstatements in the
17 financial data presented by management, would
18 you have wanted to know that?
19 MR. SMITH: Objection.
20 A. Yes.
21 Q. For the same reasons as you responded to with
22 respect to GAAP violations, I presume?
23 A. Yes, because at that point, then they'd be no
24 better than draft.
25 Q. Would your answer be the same if the auditors

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1 had discovered what they determined to be
2 fraudulent misstatements in the financial data
3 presented by AHERF's management?
4 MR. SMITH: Objection.
5 A. Yes. Definitely.
6 Q. Would the existence of material, fraudulent or
7 intentional misstatements affect in any way
8 your view of the success of the enterprise as
9 depicted in those financial statements?
10 MR. SMITH: Objection.
11 A. Yes. It would mean I couldn't trust the
12 financial statements.
13 Q. And that would be important for you to know as
14 a reviewer of those statements, correct?
15 A. Because my entire analysis is built off those
16 statements.
17 Q. And those statements being the audit financial
18 statements?
19 A. The audited --
20 MR. SMITH: Objection. I'm sorry.
21 Go ahead.
22 A. Yes, the audit financial statements.
23 MR. SMITH: Note my objection to the
24 prior question as well.
25 Q. During your tenure at PNC, do you recall ever

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1 experiencing a situation where an auditor came
2 forward with the report that there were
3 intentional, material or fraudulent
4 misstatements in the client's financials?
5 A. No, I don't recall.
6 Q. And do you recall in that instance, if that
7 would occur, what would you have done?
8 MR. SMITH: Objection.
9 A. I would have to speculate what I would have
10 done at that time.
11 Q. Would I be safe in assuming that you would have
12 at least raised it with the relationship
13 manager?
14 MR. SMITH: Objection.
15 A. Yes.
16 Q. Would it be fair to say that material,
17 intentional or fraudulent misstatements in
18 audited financials would cause you to question
19 the accuracy and lack of reliability of the
20 information contain in the quarterly statements
21 that were not audited?
22 A. Definitely.
23 MR. SMITH: Objection.
24 Q. And, again, that would be something that you'd
25 like to know as a credit analyst for PNC?

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1 A. Yes.
2 MR. SMITH: Objection.
3 Q. If you could turn, please, to page 30890 in
4 Exhibit 1785. Again, this is part of your
5 credit memo.
6 A. Okay.
7 Q. The final section on this page is titled DVOG.
8 Do you see that?
9 A. Yes.
10 Q. And I'm not going to read the entire paragraph,
11 but do you see it notes the revenues for DVOG
12 were \$1.2 billion?
13 A. Yes, I do.
14 Q. Do you think you had that number in mind -- let
15 me start that over.
16 Would you have had that number in
17 mind if you did see the quarterly losses
18 reported in the other financial statements at
19 9-30-97 you looked at earlier today?
20 A. Okay.
21 MR. SMITH: Objection.
22 A. I guess I need a little bit more clarity. When
23 you say I would have had that number in mind --
24 Q. I'm asking if you would have had that number in
25 mind, that revenue figure in mind when

1 COMMONWEALTH OF PENNSYLVANIA) CERTIFICATE

2 COUNTY OF ALLEGHENY) SS:

3 I, JoAnn M. Brown, RMR, CRR, a Court Reporter
4 and Notary Public in and for the Commonwealth of
5 Pennsylvania, do hereby certify that the witness,
6 BRIAN W. CAMP, was by me first duly sworn to testify
7 to the truth; that the foregoing deposition was taken
8 at the time and place stated herein; and that the
9 said deposition was recorded stenographically by me
10 and then reduced to printing under my direction, and
11 constitutes a true record of the testimony given by
12 said witness.

13 I further certify that the inspection, reading
14 and signing of said deposition were NOT waived by
15 counsel for the respective parties and by the
16 witness.

17 I further certify that I am not a relative or
18 employee of any of the parties, or a relative or
19 employee of either counsel, and that I am in no way
20 interested directly or indirectly in this action.

21 IN WITNESS WHEREOF, I have hereunto set my hand
22 and affixed my seal of office this 2nd day of July,
23 2004.

24 _____
25 Notary Public

1 COMMONWEALTH OF PENNSYLVANIA) E R R A T A
2 COUNTY OF ALLEGHENY) S H E E T

3 I, BRIAN W. CAMP, have read the foregoing pages
4 of my deposition given on Monday, June 28, 2004, and
5 wish to make the following, if any, amendments,
6 additions, deletions or corrections:

7 Page/Line Should Read Reason for Change
8
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15
16
17
18
19

20 In all other respects, the transcript is true and
21 correct.

22 _____
23 BRIAN W. CAMP

24 Subscribed and sworn to before me this
25 _____ day of _____, 2004.

Notary Public
AKF Reference No. JB81435

Cancelmi Dep.

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF PENNSYLVANIA

THE OFFICIAL COMMITTEE OF
UNSECURED CREDITORS OF
ALLEGHENY HEALTH, EDUCATION &
RESEARCH FOUNDATION, Civil Action
Plaintiff, No. 00-684
vs.
PRICewaterhouseCOOPERS, L.L.P.,
Defendant.

Videotape deposition of DANIEL CANCELMI,
called for examination under the statute, taken
before me, Jaci R. Traver, RPR, CRR, and Notary
Public in and for the State of Ohio, at the
offices of Jones Day, 500 Grant Street,
Pittsburgh, Pennsylvania, on Thursday, the 23rd
day of January 2003 at 9:00 a.m.

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VOLUME 1

- - - - -

Daniel Cancelmi

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1 has conducted various investigations into AHERF
 2 and the issue of its financial statements,
 3 financial reporting?
 4 A. Yes.
 5 Q. Have you been interviewed by anyone
 6 at the Securities Exchange Commission?
 7 A. Yes.
 8 Q. How many times?
 9 A. I don't know. Quite a few.
 10 Q. In terms of separate occasions of
 11 one or more days, can you tell us how many
 12 times?
 13 A. I couldn't. I don't remember the
 14 exact number of times. I know I was -- there
 15 was a two-day deposition, but then I met with
 16 them a number of different times before that.
 17 Q. You gave a deposition to the SEC?
 18 A. Yes.
 19 Q. They swore you in and put you on
 20 the record and asked you questions, right?
 21 A. Yes.
 22 Q. Was there any other party there?
 23 Was somebody there from Coopers, for example?
 24 A. No.
 25 Q. Was somebody there from AHERF?

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1 that?
 2 A. Yes.
 3 Q. There were other and related
 4 lawsuits arising out of the failure of AHERF,
 5 other than this lawsuit. You knew that, too?
 6 A. Yes.
 7 Q. Were you a participant in a
 8 deposition in one or more of those proceedings?
 9 A. I was deposed in the creditor's
 10 case that you mentioned for two days.
 11 MR. TYCKO: Just for the record,
 12 that was part of the -- what were then the
 13 consolidated cases, so there were a lot of
 14 parties involved in that deposition.
 15 Q. Right. And it was two-day
 16 proceeding?
 17 A. Yes.
 18 Q. So you testified two days on the
 19 record in that proceeding, two days on the
 20 record with the SEC?
 21 A. And then there was one other
 22 deposition I gave related to -- it was an
 23 Allegheny related case, Philadelphia Healthcare
 24 Trust. That might not be the right entity, but
 25 there was a lawsuit between that organization

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1 A. No.
 2 Q. All right. In addition to being on
 3 the record for two days, they also interviewed
 4 you off the record; is that right?
 5 A. Yes.
 6 Q. Have they made any -- have they
 7 filed any form of charges against you, the SEC?
 8 A. No.
 9 Q. Have they made any sort of deals
 10 with you or arrangements with you about
 11 prosecution or immunity from prosecution?
 12 MR. RYAN: Objection.
 13 A. No.
 14 MR. WHITNEY: What's the objection?
 15 MR. RYAN: I think it's vague. Any
 16 deals or arrangements. I'm not sure --
 17 Q. Have they made any kind of
 18 agreements or arrangements with you at all, the
 19 SEC?
 20 A. No.
 21 Q. In addition to the two days that
 22 you spent on the record with the SEC, there was
 23 also a lawsuit between my client and the former
 24 management of AHERF, or certain members of the
 25 former management of AHERF. Were you aware of

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1 and some of the Graduate entities. I don't
 2 know if Allegheny was a party to the suit or
 3 not.
 4 Q. How many days did you testify in
 5 that proceeding?
 6 A. One.
 7 Q. Other than the two days with the
 8 SEC, the two days in these consolidated cases,
 9 and the one day in this Philadelphia case, have
 10 you given any other sworn testimony in
 11 connection with the issues relating to AHERF
 12 and its financial statements, including its
 13 financial statements in 1996 and 1997?
 14 A. No.
 15 Q. While you were at AHERF, did you
 16 receive bonuses?
 17 A. I was eligible for the bonus
 18 program that Allegheny had for probably
 19 literally hundreds of people. It was a bonus
 20 program that covered certain individuals in the
 21 organization at certain levels that started,
 22 generally speaking, I think at maybe the
 23 director or senior director level on up, vice
 24 president, senior vice president.
 25 MR. TYCKO: Can we go off the

29 (Pages 110 to 113)

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1 record for one second.
 2 VIDEO TECHNICIAN: Off the record.
 3 (Discussion held off the record.)
 4 VIDEO TECHNICIAN: On the record.
 5 Q. Talking about the bonus system
 6 while you were at AHERF. Were the bonuses tied
 7 to any kind of achievement objectives or the
 8 achievement of any kind of objectives?
 9 A. Yes.
 10 Q. Was profitability one of those
 11 objectives?
 12 A. Yes, it was.
 13 Q. I have heard it said in some place,
 14 it might have been in a deposition, that AHERF
 15 had internal and external budgets. Budgets
 16 that were given to the trustees versus budgets
 17 that were internal budgets.
 18 Do you know anything about that?
 19 A. I don't remember that, but I didn't
 20 go to board meetings.
 21 Q. I didn't ask you if you went to
 22 board meetings. I'm asking you whether or not
 23 you were aware of the notion that there were
 24 separate sets of budgets at AHERF; the internal
 25 budgets that the employees and management

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1 safety and the more qualitative criteria that
 2 had to be met and not necessarily financial
 3 related.
 4 Q. Well, when you say that Coopers &
 5 Lybrand or PWC -- let me hold that point for a
 6 second. You fall victim to the same thing I
 7 do. When you talk about PWC, you mean its
 8 legacy firm, Coopers & Lybrand, right?
 9 A. Sorry, yes.
 10 Q. But it's okay, as long as it's okay
 11 with everybody else that when we talk about
 12 PWC, we're referring to it by its present name.
 13 But it was not merged at year end 1996 or at
 14 year end 1997, as you recall, right?
 15 A. Yes, that's correct.
 16 Q. Now, when you say that PFC -- when
 17 you say that PWC was engaged to do special
 18 procedures, special procedures examination of
 19 the AHERF compensation system, was that on an
 20 annual basis?
 21 A. Yes.
 22 Q. All right. And when you were at
 23 AHERF in year end 1996 and year end 1997, was
 24 Coopers & Lybrand presenting or performing such
 25 an examination of the employee compensation

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1 worked off of, and the budgets they gave the
 2 board?
 3 A. I don't remember that.
 4 Q. When you were at Coopers & Lybrand
 5 auditing AHERF at year end 1994, was AHERF's
 6 incentive compensation system or incentive
 7 compensation program a subject of audit
 8 inquiry?
 9 MR. RYAN: Objection.
 10 Q. If you recall.
 11 A. Yes.
 12 Q. All right. Is this typically an
 13 item that is covered by the audit of a company,
 14 in your experience?
 15 MR. RYAN: Objection.
 16 A. It can be. The reason it was
 17 certainly an audit area with the Allegheny
 18 audit was the fact that PWC was engaged to
 19 issue its called an agreed upon procedures
 20 letter, I believe, to review the various
 21 calculations that go into determining whether
 22 the various criteria are met to support the
 23 payment of bonuses.
 24 And there was criteria, there was
 25 financial criteria, there was patient, I think,

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1 system?
 2 A. Yes.
 3 Q. This would be something that they
 4 would report to the board regarding
 5 management's achievement of objectives relating
 6 to the incentive compensation system?
 7 MR. RYAN: Objection.
 8 A. Yes. It was -- I'm not sure it
 9 went to the board. It went to, I believe it
 10 went to the compensation committee, which is,
 11 you know, a subset I guess of the board of
 12 Allegheny. But there was a letter that Coopers
 13 would issue saying they did certain procedures
 14 related to this bonus program.
 15 Q. Was there any particular focus at
 16 AHERF on achieving budgetary targets?
 17 A. Sure. I mean there was, you know,
 18 the organization, just like any organization,
 19 established budgets.
 20 Q. Budgets.
 21 A. And would want to achieve them.
 22 Q. Do you recall if there was any
 23 peculiar emphasis on achieving budgets at AHERF
 24 as opposed to other companies that you're
 25 familiar with, such as Tenet?

30 (Pages 114 to 117)

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1 management, I believe, engaged Coopers &
 2 Lybrand to come in and do sort of, I'm not sure
 3 what the right term would be, but some type of
 4 special review or audit of some of the
 5 potential problems related to the accounts
 6 receivable area. I don't exactly remember the
 7 dates of that, but sometime in '96 or '97.
 8 Q. With respect to the year end 1996
 9 audit, do you know whether or not Coopers &
 10 Lybrand was attaching any special focus or
 11 significance on the account area of accounts
 12 receivable in connection with the AHERF audit?
 13 A. I believe so, because, again, the
 14 special review that I mentioned, that may have
 15 been happening or occurring right before the
 16 end of '96 or right after.
 17 And then it seemed like during the
 18 '96 audit, they were performing it seemed like
 19 additional work than they would have in a
 20 normal audit due to some of the issues that had
 21 been occurring.
 22 And there would be, you know, if
 23 you look at the management letter that would
 24 have been issued by Coopers, there was, you
 25 know, certainly a rather, you know, lengthy

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1 you recall?
 2 A. Just -- I don't remember
 3 specifically. Just accounts receivable type
 4 information.
 5 Q. What about -- do you remember who
 6 it was that was doing the asking?
 7 A. There was probably a number of
 8 different people. It wasn't just one person.
 9 I think they had -- Coopers would have, you
 10 know, a number of different individuals looking
 11 at accounts receivables, so you could have a
 12 number of different people asking for data.
 13 I think related to that special
 14 review, they sent over like a request for
 15 information from us of data that we would have
 16 to pull together.
 17 And then I think they had people
 18 other than auditors, they had this healthcare
 19 consulting group. They had some of those
 20 people involved and went over and sat down and
 21 reviewed data in the billing department area
 22 and I guess spoke with people over there also.
 23 Q. Do you recall a conversation with
 24 anybody from Coopers & Lybrand at or around the
 25 time of the 1996 audit in which they told you

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1 conversation or discussion in '96 in the
 2 management letter about some of the issues that
 3 were challenging the Allegheny organization in
 4 the patient billing area.
 5 Q. You say if one looks in the
 6 management letter of 1996, one will find
 7 commentary about Coopers & Lybrand that
 8 challenge the Allegheny organization?
 9 A. I'm not saying challenging, just
 10 pointing out what some of their findings were
 11 and some of the issues challenging or being
 12 presented to the Allegheny organization.
 13 Q. All right. Now, I want to go back
 14 to something you said in your last lengthy
 15 answer, and that was it seemed like they were
 16 doing additional work, more additional work
 17 than they would have done in a normal audit.
 18 This is in 1996?
 19 A. Yes, I believe so.
 20 Q. Okay. On what basis do you make
 21 that statement?
 22 A. I thought that they were asking for
 23 some more reports or data than they seemed to
 24 have asked for in the past.
 25 Q. What sorts of reports and data, if

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1 specifically, we are really focused this year
 2 on this accounts receivable?
 3 A. I can't remember a specific
 4 conversation.
 5 Q. Was your impression that they were
 6 doing additional work was simply that it seemed
 7 like there was more activity from Coopers in
 8 the area of accounts receivable?
 9 A. Yes.
 10 Q. More requests for information?
 11 A. Yes.
 12 Q. All right. But nobody from Coopers
 13 was specifically telling you, we're troubled
 14 about accounts receivable, or we're locked in
 15 on accounts receivable, anything like that?
 16 A. I mean I think it was a given that
 17 given that, you know, that there had been
 18 problems in that area that Allegheny management
 19 had identified and had brought to, you know,
 20 Coopers' attention and had asked them to come
 21 in and do some additional work or review
 22 procedures, whatever you want to call them.
 23 So I mean certainly, you know, took
 24 on maybe more heightened sense of awareness
 25 than it would have if there hadn't been

34 (Pages 130 to 133)

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1 problems or issues in that billing area.
 2 Q. But on the healthcare auditing
 3 side, accounts receivable and the allowance for
 4 doubtful accounts would always be a key
 5 auditing area, right?

6 MR. RYAN: Objection.

7 A. I believe that would be a fair
 8 characterization that a lot of people would
 9 conclude.

10 Q. Were you -- I asked you this
 11 before, but I'm not sure that I remember what
 12 the answer was.

13 When you were at Coopers at year
 14 end 1994, you had overall responsibility as
 15 manager for items such as accounts receivable,
 16 I think that was your testimony; is that right?

17 A. Yes. When you're the overall
 18 engagement manager in practice, you have
 19 responsibility for making sure the entire
 20 engagement is pulled together. You might have
 21 other managers underneath you reviewing certain
 22 areas and then you rely on, you know, the work
 23 and the review procedures that they perform and
 24 that the people underneath them perform.

25 Q. Do you remember whether or not your

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1 being drawn by Coopers on accounts receivable
 2 and bad debt?

3 A. I would --

4 MR. RYAN: Objection.

5 A. I would be involved. Whether I
 6 performed the detailed nitty gritty review of
 7 every single work paper and schedule that
 8 supported those, I can't say that. I would
 9 have to go look at the work papers and see
 10 which ones I reviewed and maybe had another
 11 manager review them.

12 But they would have presumably kept
 13 me apprised of what the issues were. And if
 14 there was any problems, it would have been, you
 15 know, brought to my attention and they would
 16 have been, you know, obviously escalated to the
 17 partner, if necessary.

18 Q. You talked about the fact that
 19 Robin Schaffer would put together estimates
 20 using matrixes of the kind and percentages that
 21 we talked about earlier. Do you recall that
 22 testimony?

23 A. Yes.

24 Q. And that this is an evaluation that
 25 would go up the line at AHERF. People would

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1 work as manager at the year end 1994 audit
 2 would specifically include inquiry into the
 3 issue of bad debt, accounts receivable and bad
 4 debt?

5 A. I can't remember.

6 Q. All right. The reason I ask the
 7 question is because you said that many would
 8 consider this to be a focal point of a
 9 healthcare audit, right?

10 A. Yes.

11 Q. An important part of a healthcare
 12 audit?

13 A. Yes.

14 Q. As opposed to tying off bonds or
 15 something like that?

16 A. Right.

17 Q. It involves in the bad debt area
 18 that thorny issue of the auditing of estimates,
 19 right?

20 A. Yes.

21 Q. And I'm wondering, in light of that
 22 and in light of the fact that you were the lead
 23 manager, if you will, on the AHERF audit, would
 24 this not presuppose that you would be involved
 25 in some direct way in the work and conclusions

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1 look at the accounts receivable and the
 2 estimates and they would look at the data and
 3 sort of second guess, if you will, or add their
 4 thoughts or concepts or judgments as it goes up
 5 the line, right?

6 A. Yes.

7 Q. Now, when you were over at Coopers
 8 & Lybrand, is there somebody over at Coopers &
 9 Lybrand in connection with the auditing of that
 10 column or that item that's doing essentially
 11 the same thing, i.e., looking at the data that
 12 is being relied on, looking at the numbers, and
 13 making independent estimates?

14 MR. RYAN: Objection.

15 Q. Since I'm catching an objection, my
 16 question is a broad one.

17 Based on your experience at Coopers
 18 & Lybrand, how did you guys go about auditing
 19 bad debt reserves at AHERF?

20 A. I mean the firm has predefined
 21 audit steps that are established at the start
 22 of the auditing engagement that they set forth
 23 and say, these are the steps or audit tests or
 24 reviews that we will conduct to get comfortable
 25 that the numbers are correct.

35 (Pages 134 to 137)

Daniel Cancelmi

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1 earmarked accounts at the Graduate, created at
2 the Graduate before they were sold to AHERF,
3 right?

4 A. Yes.

5 Q. Okay. When was the \$25,265,000 of
6 additional bad debt reserves transferred from
7 the Graduate to the DVOG hospitals?

8 A. I think in May and June.

9 Q. Of 1997?

10 A. Of '97.

11 Q. Whose idea was it to transfer those
12 reserves?

13 A. How those reserves were transferred
14 is after our department would have prepared the
15 financial statements for those months, those
16 financial statements would have been
17 distributed to management for their review.
18 And that would have been like Chuck Morrison
19 and David McConnell, et cetera.

20 And after they had reviewed those
21 financial statements, they made the
22 determination that, indeed, we needed to
23 transfer additional reserves for the DVOG bad
24 debt reserves, and that the contractual
25 allowances on the DVOG hospitals for those

1 in the decision at that specific point in time.

2 I couldn't say for sure.

3 Q. Do you know whether or not they
4 came to know about this transfer?

5 A. Yes, I believe they did know about
6 it.

7 Q. How do you know that?

8 A. Well, there was -- we provided
9 various documentation to Coopers & Lybrand that
10 would have these transfers listed, these items
11 listed on there. And then there would have
12 been either through conversations directly with
13 them, documentation provided to them, or
14 documentation made available to them, that, you
15 know, these transactions had been recorded.

16 Q. What documentation did you provide
17 to Coopers & Lybrand that would have had these
18 transfers listed?

19 A. And I may not have provided the
20 documentation to them directly, but maybe it
21 was Robin or people in her department, as far
22 as the accounts receivable area. There is a
23 number of different audit schedules that they
24 request throughout the course of an audit, such
25 as the activity in the hospitals, bad debt

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1 particular months needed to be adjusted.

2 Q. Okay. 1997, in March and April, in
3 each of those two months \$25,000 -- \$25 million
4 of Graduate reserves are transferred to the
5 DVOG hospitals and used to augment bad debt.
6 And then at some point a determination is made
7 that you need more; is that right?

8 A. Yes.

9 Q. And the decision is made to
10 transfer in May and June, in increments in both
11 May and June of 1997, \$21 million more of
12 Graduate reserves, in this case created
13 through -- or created as contingent liability
14 reserves. The decision is made to transfer
15 them over, much like you would transfer the
16 first 50, right?

17 MR. RYAN: Objection.

18 A. Yes.

19 Q. Now, you say that the decision was
20 made by people like Morrison and McConnell; is
21 that right?

22 A. Yes.

23 Q. Do you know whether or not Coopers
24 & Lybrand was involved in the decision?

25 A. I don't know if they were involved

1 reserve accounts.

2 And, you know, there's some rolls,
3 bad debt roll-forward schedules that I think
4 they were referred to that had many, at least
5 70 some million of these transfers identified
6 on there. There was, I believe there was other
7 schedules that identified some of the
8 components of accounts receivable. And there
9 would have been a listing.

10 And I believe Coopers got, I think
11 it was their practice to ask Robin for it and
12 to -- and for her to provide it to Coopers. It
13 listed all the various components. I think
14 there may have been a line item or two that
15 said something, Graduate reserves, or reserves
16 for bad debt Graduate, or something to that
17 effect that had like the 50 listed and then the
18 20 some million listed.

19 So either between, you know,
20 conversations with them or documentation
21 provided to them or information made available
22 to them, my understanding is that they were
23 aware of it. All the transactions were
24 recorded in the general ledger. And, you know,
25 with the journal entries, you know, filed, I

44 (Pages 170 to 173)

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1 believe, appropriately in journal entry books
2 with, you know, documentation backing up
3 whatever the nature of the journal entry was.

4 Q. The \$28.3 million that's used to
5 reduce contractual allowances, whose idea was
6 it to do that?

7 A. I don't know if there was like one
8 person's particular idea. My recollection was
9 the additional bad debt reserves at 21 million
10 or 21 million and then the 28, I believe they
11 were recorded sort of around the same time.

12 And the bad debt reserves, there
13 was -- we were producing schedules, if not
14 monthly, pretty much monthly that identified
15 the bad debt reserves shortfalls each month,
16 which were, I believe, provided to like Chuck
17 Morrison and David McConnell, which listed how
18 much the estimated shortfall was each month.

19 So based on them looking at that
20 type of information, in addition to the
21 financial statements that were prepared each
22 month, that, you know, there needed to be
23 adjustments made to the bad debt reserves
24 because there didn't seem to be enough in the
25 reserves, unless there was additional reserves

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1 A. Yes.

2 MR. RYAN: Objection.

3 MR. WHITNEY: The reason?

4 MR. RYAN: In 1997 there were no
5 audited DVOG financial statements.

6 Q. It would be -- it would be on the
7 AHERF, it would be charged as a \$50 million
8 expense in my hypothetical on the AHERF
9 financial statements, right?

10 A. Yes.

11 Q. But in the consolidating schedules
12 that were attached to the 1997 financial
13 statements, it would show as an expense to
14 DVOG, right?

15 A. Yes.

16 Q. Thank you. What we're talking
17 about here then is a methodology that was
18 employed to increase bad debt without having to
19 take an expense on DVOG's financial statement,
20 right?

21 MR. RYAN: Objection.

22 A. Yes.

23 MR. WHITNEY: What's the objection
24 there?

25 MR. RYAN: The same, DVOG financial

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1 recorded.

2 Q. How normally would one augment the
3 bad debt reserve, if one needed to raise the
4 bad debt reserve? What is the normal vehicle
5 by which a healthcare entity does that, if you
6 know?

7 A. I mean there can be a number of
8 different ways. Two of the more common ways is
9 to record bad debt expense or if you get,
10 receive collections on accounts you had
11 previously written off, when that cash comes
12 in, you could put that money aside into the bad
13 debt reserve account.

14 Q. Let's focus for a second on the
15 more usual way that you described.

16 You can, you say, record a bad debt
17 expense. That means, for example, since we're
18 talking about 1997, if you need to raise your
19 bad debt reserve by \$50 million, you've got to
20 take an expense item of \$50 million, right?
21 You've got to show that as a 1997 expense?

22 A. If that's -- yeah, if you're
23 talking about the conventional method.

24 Q. And it would be an expense on the
25 DVOG financial statements, right?

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1 statement objection.

2 Q. All right. You're talking about a
3 vehicle for transfer or augmenting bad debt,
4 the bad debt reserve attributable to DVOG
5 accounts without having to take a charge on the
6 AHERF financial statement, right?

7 A. Yes.

8 Q. Which would be a charge to DVOG in
9 the consolidating schedules, right?

10 A. Yes.

11 Q. Incidentally, do you know if there
12 was anybody out there in 1997 who was looking
13 at those consolidated schedules?

14 MR. RYAN: Consolidated or
15 consolidating?

16 Q. Thank you. Consolidating
17 schedules.

18 A. Yes, there was consolidating
19 schedules in the AHERF consolidated audit
20 report, of which there was, I believe, there
21 was like a supplemental opinion on those
22 consolidating schedules.

23 Q. By Coopers & Lybrand?

24 A. Yes.

25 Q. All right. My question is: Do you

45 (Pages 174 to 177)

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1 know whether or not there was any population of
2 readers of the financial statements that had
3 particular interest in DVOG financial
4 statements or financial performance as opposed
5 to AHERF generally?

6 MR. RYAN: Objection.

7 A. There was -- before 1997, there was
8 separate DVOG financial statements issued,
9 audited financial statements issued. However,
10 in '97, Allegheny management, it was my
11 understanding, had obtained approval to just
12 provide one set of consolidated AHERF financial
13 statements with consolidating schedules in the
14 back of those financial statements that showed
15 the various hospitals or obligated groups
16 within the AHERF organization.

17 Q. Approval from whom?

18 A. My understanding, they had got
19 approval from the debtholders or bondholders or
20 whatever legal course needed to be taken.

21 Q. We're talking about, at least in
22 certain cases, debtholders or bondholders of
23 obligations pertinent to DVOG, right, the
24 Delaware Valley Obligated Group?

25 A. Among others, because AHERF had

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1 before these adjustments were recorded.

2 And then after they reviewed them,
3 they would have come back and told my
4 supervisor, at the time it would have been Al
5 Adamczak, that we should make adjustments to
6 the financial statement.

7 Q. Do you know whether or not Coopers
8 & Lybrand knew about this \$28.3 million
9 transfer of reserves at or around the time the
10 transfers were made?

11 A. I believe they knew. Maybe not
12 exactly at the time they were recorded, but at
13 some point during the audit it was my
14 understanding that they were aware of the
15 transfer.

16 Q. Where does that understanding come
17 from?

18 A. Well, there would have been
19 information either provided to them or
20 conversations or information made available to
21 them that would indicate that the reserves had
22 been transferred.

23 Q. Like what?

24 A. There could have been whether it's
25 journal entries made available, whether it's

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1 more than just debt obligation related to DVOG.
2 There was other, I don't know if there was
3 other Philadelphia -- yeah, there was other
4 Philadelphia debt instruments and then there
5 was obviously Pittsburgh.

6 Q. We got lost here, though, because
7 we were talking about the \$28 million that was
8 used to, I always confuse this, reduce the
9 contractual allowance, which you said was
10 something that was done around, again, the time
11 frame June, July, when the 21.3 was done,
12 right?

13 A. Yes.

14 Q. My question to you was: Who made
15 the decision to do that? And that being
16 transfer \$28.3 million of Graduate reserves to
17 the DVOG entities to reduce contractual
18 allowances?

19 A. I mean I believe it was, you know,
20 Dave McConnell and Chuck Morrison. I mean they
21 approved the financial statements. I know the
22 May and June financial statements that year had
23 been prepared and had been sent off to various
24 individuals, including, you know, Chuck
25 Morrison and David McConnell for their review

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1 schedules, whether it's trial balances. There
2 was a lot of these reserves were in separate
3 trial balance accounts on the general ledger.
4 And they would have had balances at
5 a certain point in time and then at the end of
6 June there wouldn't have been balances anymore,
7 there would have been zero balances, which
8 would indicate after you would go in and review
9 the activity for that account that the reserves
10 had been transferred and you could trace to
11 where the reserves would have been transferred
12 to.

13 Q. All right. You're saying that
14 there are a variety of different accounting
15 documents that would have reflected these
16 reserve transfers, right?

17 A. That would have reflected the
18 reserve transfers or indicated that the
19 reserves that were there previously were no
20 longer there. And then once you start getting
21 further and further into the detail, you would
22 see that the reserves had been transferred and
23 where they went to.

24 Q. You say that these various
25 documents were made available to Coopers,

46 (Pages 178 to 181)

Daniel Cancelmi

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1 right?

2 MR. RYAN: Objection.

3 A. Every --

4 MR. WHITNEY: I'm sorry, what's the
5 objection?

6 MR. RYAN: The witness said they
7 could have been provided to Coopers, not that
8 he knows that they, in fact, were.

9 MR. WHITNEY: Let me check that,
10 because I didn't mean to soft pedal that one.
11 That's kind of important. I agree with you.
12 I'm always trying to be fair.

13 Q. You said there would have been
14 information either provided to them or
15 conversations or information made available to
16 them that indicate that the reserves had been
17 transferred.

18 Son of a gun, I'm right and
19 Mr. Ryan is wrong this time. That's not going
20 to happen a lot. That's what you said and
21 that's the segue to my next question.

22 Are you saying that it's in these
23 records when Coopers was auditing the company,
24 and if they didn't see it, that's tough; or are
25 you saying they were in records you know they

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1 of the reserves would have been discussed. I
2 can't say every single one, but the reserves,
3 the bad debt reserves were certainly, like
4 we've talked about earlier today, I mean it was
5 certainly an area of concern of the
6 organization and had been for a number of
7 years.

8 And based on the various dialogues
9 or dialog or conversations that occurred over
10 numerous period of time, you know, there's
11 certainly the accounts receivable area was one
12 that got a lot of attention.

13 Q. All right. You have a somewhat
14 unique perspective in this case because you
15 both audited AHERF for Coopers and you were
16 with AHERF dealing with and providing
17 information to Coopers in their audits.

18 From those perspectives, what
19 happens in 1997 is apart from the \$28 million
20 that's going to reduce contractual allowances,
21 is during the course of a three-month period of
22 time or four-month period of time, a total of
23 approximately \$71 million that was Graduate
24 reserves is going through intercompany
25 transfers to AHERF bad debt, right? I'm

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1 saw, or what?

2 MR. RYAN: Objection. Compound and
3 leading.

4 A. What I'm saying is that --

5 MR. WHITNEY: Can't be leading. I
6 gave him two alternatives.

7 A. What I'm saying is there would --
8 my recollection that there would have been
9 schedules provided that would show various
10 components of these reserves that had been
11 transferred, whether it's bad debt reserves or
12 roll-forward schedule. Whether it's a general
13 ledger that had a reserve balance at a certain
14 point in time and then there was no balance
15 left at the end of June, that would indicate
16 the reserve was gone.

17 And then if they would have gone to
18 a journal entry book, whether -- I can't say
19 for certain whether every single reserve was
20 discussed in detail. I can't personally say
21 that, but all the reserves that were
22 transferred were in journal entries, in journal
23 entry books that were certainly available to be
24 reviewed.

25 It was my understanding that some

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1 leaving out all of the accounting transactions,
2 but that is the essence of what's happening,
3 right?

4 A. It's going to DVOG bad debt
5 reserves.

6 Q. And the bad debt reserve at DVOG is
7 being enhanced by the amount of \$71 million
8 without any charge to the income statement,
9 right?

10 A. Yes.

11 Q. Now, were all of these transactions
12 recorded in the general ledger?

13 A. Yes. As far as I know.

14 Q. Well, if they weren't, would you
15 know that?

16 A. I would think so.

17 Q. Are you saying that they were
18 there?

19 A. That's my understanding they are.

20 Q. Now, based upon your perspective as
21 both a former Coopers auditor and a person
22 providing information to Coopers from AHERF, in
23 your view is there any way they could have
24 missed it?

25 MR. RYAN: Objection.

47 (Pages 182 to 185)

Daniel Cancelmi

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1 Q. The \$71 million.
 2 MR. RYAN: Objection.
 3 A. No, I don't believe so.
 4 Q. And the reason is because it is
 5 reflected in records that they would certainly
 6 be looking at as part of the audit?
 7 MR. RYAN: Objection.
 8 A. Yes.
 9 Q. And do I get it, one of them is --
 10 withdraw that.
 11 Tell me again, what are the records
 12 that they would certainly have been looking at
 13 as part of the audit that would have revealed
 14 this?
 15 MR. RYAN: Objection.
 16 A. There would be, and I couldn't list
 17 every single one of them, but whether it's an
 18 analysis of the bad debt reserve accounts,
 19 whether -- it could be an analysis of bad debt
 20 reserve accounts. It could be an analysis of
 21 the bad debt expense on the income statement.
 22 It could be an analysis of trying
 23 to roll-forward bad debt reserve balances on
 24 the balance sheet from the prior year to the
 25 current year. And factoring into that

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1 roll-forward the expense that was on the income
 2 statement.
 3 It could be looking at journal
 4 entries, bad debt journal entries, either bad
 5 debt expense journal entries or bad debt
 6 reserve journal entries. It could be other
 7 documents provided. There could be a whole
 8 host of documents you could look at, or would
 9 have looked at.
 10 Q. One set that you might have left
 11 off, in connection with the 1997 audit, would
 12 Coopers be looking specifically at Graduate
 13 reserves?
 14 A. Yes.
 15 Q. Why?
 16 A. Because 1997 would have been the
 17 first year that the Graduate hospitals would
 18 have been in AHERF's financial statement,
 19 consolidated financial statements.
 20 Q. Are there accounting implications
 21 specific to the creation of reserves?
 22 A. Yeah. I mean, well, just the mere
 23 fact that you have an acquisition of an entity
 24 or a group of hospitals or entities, the first
 25 year they go into your financial statements, as

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1 an auditor you would look at those financial
 2 statement numbers.
 3 Q. But is it important to know, in the
 4 context of the audit, is it important to know
 5 what reserves were taken and where are they
 6 now?
 7 A. Yeah, I think that would be a fair
 8 characterization.
 9 Q. So that if one was looking at when
 10 reserves were created in the Graduate before it
 11 was acquired by AHERF and where are they now,
 12 the books and records of the company would
 13 clearly show that \$71 million of them is gone
 14 at the end of 1997, right?
 15 MR. RYAN: Objection.
 16 A. The books and records would clearly
 17 show that the 99, whatever the numbers, was
 18 gone.
 19 Q. The 71 million and the 28 million,
 20 right?
 21 A. Yes.
 22 Q. To your recollection, would AHERF's
 23 general ledgers and other accounting
 24 information show that the reserves that were
 25 used to transfer -- to be transferred over to

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1 DVOG for the purposes stated were no longer on
 2 Graduate's side of the balance sheet at year
 3 end 1997?
 4 A. Yes.
 5 Q. Back to the first 50 million. You
 6 indicated that the decision was not made by
 7 you. And before I forget to ask you the
 8 question, whoever decided to transfer the
 9 \$21 million in Graduate reserves over to DVOG
 10 in June -- or May and June of 1997, whoever
 11 that was, it was not you?
 12 A. No. No. The decision would have
 13 been made by Morrison and McConnell.
 14 Q. What about the \$28 million?
 15 A. The same.
 16 Q. Whether the decision was made by
 17 you, were any of these four transactions, I say
 18 four, the 25 in March, the 25 in April, and the
 19 21 and 28 in May and June, were any of these
 20 your idea?
 21 A. I wouldn't characterize it as that,
 22 my idea. I mean these were -- these were
 23 transactions. You got to keep in mind we're
 24 talking about the accounts receivable area that
 25 had been getting a lot of attention up and down

48 (Pages 186 to 189)

Daniel Cancelmi

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1 the organization, inside the organization,
 2 externally from our auditors.
 3 And we were providing, as I'm sure
 4 we'll go through, numerous documents that I was
 5 generating, advising people of what some of the
 6 accounts receivable reserve issues were on a
 7 monthly basis, and sending that information to
 8 my supervisors for them to determine what they
 9 want to do and what needs to be done and I mean
 10 to evaluate the numbers.
 11 Q. Was the concept of using reserves
 12 as a vehicle to address accounting items in the
 13 financial statement without the need to record
 14 expense, was that a new concept to AHERF in
 15 1997, in your experience?
 16 A. Yeah, that's fair.
 17 Q. Do you know what the term cushion
 18 accounting means?
 19 A. Yeah, a lot of people refer to
 20 cushions. I think I would know what you're
 21 referring to.
 22 Q. It's the use of reserves -- I
 23 understand it, I'm using it to mean the use of
 24 reserves as essentially slush funds to be used
 25 on an as-needed basis in order to improve

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1 you're supposed to get rid of that reserve in
 2 some fashion consistent with the fact that you
 3 don't need it anymore, right?
 4 A. Yes.
 5 Q. But that does not typically include
 6 transforming it into a cushion to use on an
 7 as-needed basis in the organization to address
 8 unrelated accounting issues without having to
 9 go to the income statement, right?
 10 A. Yes.
 11 Q. Now, that -- the concept of cushion
 12 accounting, as I'm using it, was not a new one
 13 at AHERF, right?
 14 A. As far as cushion accounting, when
 15 I'm saying this was a new concept, as far as
 16 transferring reserves from entities outside of
 17 the AHERF system into the AHERF system, that's
 18 really what was new.
 19 Allegheny, you know, would have had
 20 reserves in prior years, when they wouldn't
 21 necessarily have been needed before, they may
 22 have been used. Whether you call that cushion
 23 accounting or not, I'll leave that for someone
 24 else to decide that.
 25 But organizations will establish

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1 financial results without having to take
 2 expense on the income statement. Is that the
 3 way you use cushion accounting?
 4 A. Cushion accounting, I mean
 5 cushion -- first of all, there's nothing in the
 6 literature that talks about cushion accounting.
 7 Q. Actually, to the extent there's
 8 anything in the literature, it is you don't do
 9 that, right?
 10 A. That would be right.
 11 Q. That's a no-no.
 12 A. Cushions are oftentimes viewed as
 13 excess reserves.
 14 Q. But you're not supposed to use
 15 cushions.
 16 A. Well --
 17 Q. At least in -- cushions aren't
 18 GAAP, right?
 19 A. If you have a reserve, you don't
 20 need any more, in practice you're supposed to
 21 get rid of it and it's a matter of how you
 22 dispose of it.
 23 Q. By getting rid of it, it means,
 24 when you create a reserve for a specific
 25 purpose and the purpose does not come to pass,

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1 reserves. And at certain points if they don't
 2 need them anymore, they'll use them and reverse
 3 them.
 4 Q. I'm not trying to put you on the
 5 spot here, Mr. Cancelmi, but actually, the use
 6 of acquisition accounting to create cushions
 7 was not new to AHERF with the Graduate
 8 acquisition, was it? They had created cushions
 9 when they acquired, for example, Hahnemann,
 10 that -- they had created reserves when they
 11 acquired Hahnemann that were used as cushions,
 12 didn't they?
 13 MR. RYAN: Objection.
 14 MR. WHITNEY: What's the objection?
 15 MR. RYAN: You're leading the
 16 witness.
 17 Q. Okay. I'll take that.
 18 A. I couldn't --
 19 Q. I agree.
 20 A. I'm not sure. I mean I would have
 21 to look at all the reserves that were
 22 established as part of the Hahnemann
 23 acquisition.
 24 I know there was reserves
 25 established as part of the Hahnemann

49 (Pages 190 to 193)

Daniel Cancelmi

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1 record at 2:56.

2 Q. I need to mark, I guess, 1063, if
3 it's not been marked before.

4 - - - - -
5 (Thereupon, Deposition Exhibit 1063
6 was marked for purposes of
7 identification.)
8 - - - - -

9 Q. I am showing you a document that
10 I've marked as Exhibit 1063, which I want to be
11 willing to predict with some certainty you have
12 not seen -- or you did not author. Whether
13 you've seen it before or not we'll soon
14 establish, but for your benefit you can look at
15 whatever portions of this series of materials
16 you wish, but the questions I'm going to ask
17 you focus on that document that bears the Bates
18 stamp CL147599.

19 A. (Witness reviewing document.)
20 599?

21 Q. Right. And specifically the fourth
22 paragraph.

23 A. Okay.

24 Q. These are, in fact, I believe,
25 Mr. Cancelmi, the notes of someone associated

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1 MR. WHITNEY: Whatever it says, I'm
2 asking him, do you remember introducing the
3 idea of the \$50 million of reserves, period.

4 MR. TYCKO: To whom?

5 MR. WHITNEY: To anyone.

6 A. Not that I remember.

7 Q. Okay. Do you remember discussing
8 with Mark Kirstein the subject of the
9 \$50 million reserves under circumstances where
10 he said he would take it back to people at
11 Coopers?

12 A. I really don't remember that.

13 Q. All right. You don't remember any
14 conversation in which Kirstein would have said,
15 I will take it up -- I'll run it up the flag
16 pole?

17 A. No, I really don't remember. I
18 think they're referring to that luncheon at
19 Tambellini's. And my recollection, I mean this
20 is my recollection, whether it's right or not,
21 I don't remember us going to that lunch
22 thinking, hey, we got this brainstorm of an
23 idea, we'll run it by Mark and then see if he
24 thinks it's okay and then he'll run it to
25 Buettner. I just -- that wasn't my

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1 with Coopers & Lybrand named Cepielik,
2 C-e-p-i-e-l-i-k.

3 And these apparently are notes from
4 an interview with Al Adamczak. I derive that
5 from the top of this page bearing the date
6 10/14/98.

7 Whether they are or they aren't,
8 four lines down, I don't know whether you can
9 read that or not. I have scuffled with it and
10 I believe what I come up with is, and you look
11 along with me, reclass of the \$50 million of
12 reserves was originally introduced by Dan
13 Cancelmi to Mark Kerstein, who indicated that
14 it was okay, but wanted to run it up the flag
15 pole.

16 Do you see that?

17 A. Uh-huh.

18 Q. First question is: Do you remember
19 introducing the reclassification of \$50 million
20 of reserves?

21 A. No. I mean I really don't view it
22 as that. I assume --

23 MR. TYCKO: In fairness, that isn't
24 what this says. It just says, introduces by
25 him to Mark Kirstein.

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1 recollection of it.

2 Q. If Adamczak's recollection is
3 different, and I don't know if it is or it
4 isn't, but if Adamczak's recollection is
5 essentially as stated in these notes, would you
6 dispute that?

7 A. Yeah. I mean that just -- I don't
8 remember it being like that. I just don't
9 remember me and Al going to a lunch meeting
10 like that thinking, hey, we'll try this out on
11 Kirstein, and if he buys off on it, hopefully
12 he'll take it up to Buettner. I mean that's
13 not what I remember.

14 Q. Do you remember conversations with
15 Kirstein in other context in the spring of 1997
16 relating to the \$50 million of reserves?

17 A. Generally speaking, yes. I can't
18 say specifically when or what the exact
19 communication was. I know I've seen notes of
20 supposedly a conference call or something like
21 that where it was discussed.

22 Q. You asked, Mr. Cancelmi, and I
23 provide.

24 A. But I'll be honest, when I saw
25 that, and I can't remember if the SEC showed

51 (Pages 198 to 201)

Daniel Cancelmi

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1 that to me first or maybe even the creditors.

2 Q. Doesn't matter. I'm going to show
3 it to you now and you can tell us what you
4 think of it now.

5 -----
6 (Thereupon, Deposition Exhibit 1064
7 was marked for purposes of
8 identification.)
9 -----

10 (Discussion held off the record.)

11 Q. Let me show you a document that's
12 been marked as Defendant's Exhibit 1064. You
13 were starting to talk to me about notes that
14 you were shown, perhaps, by the SEC. Would
15 these be those notes?

16 A. Yes.

17 Q. For the benefit of the assembled
18 masses, these notes appear to say at the top,
19 Dan C, 4/18, Buettner/Frazier.

20 Do you recognize the handwriting
21 here?

22 A. Yes.

23 Q. Whose handwriting is this?

24 A. Mark Kirstein's.

25 Q. You know his handwriting on sight?

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1 receivable outpatient. Do you see that?

2 A. Yes.

3 Q. Do you know what that reference is
4 to?

5 A. I think he's referring to the past
6 statute accounts there.

7 Q. And there are \$80 million in past
8 statute accounts on the books as of April 18th,
9 1997 that are going to be written off?

10 A. Those accounts had started to have
11 already been written off.

12 Q. But you're familiar, you're
13 familiar with that discussion point?

14 A. Yes.

15 Q. And then it next says, placing
16 reserves on Graduate entities to be used for DV
17 A/R at year end. Do you see that?

18 A. Yes.

19 Q. That would -- do you remember
20 discussing on or about April 18 with
21 Cancelmi -- or Kirstein, Buettner and Frazier
22 the subject of placing reserves on Graduate
23 entities to be used for Delaware Valley
24 accounts receivable at year end?

25 A. That's consistent with my

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1 A. Yes.

2 Q. How come?

3 A. I worked with him for a number of
4 years.

5 Q. Do you remember specifically a
6 telephone conversation with Buettner and
7 Frazier and Kirstein on April 18th, perhaps
8 1977?

9 MR. TYCKO: '77?

10 Q. 1997.

11 A. Not -- vaguely. I don't remember
12 specifically, although obviously I don't
13 dispute it. I know there was some
14 conversations that took place and, in fact, I
15 think Steve might have been involved in one or
16 two of them.

17 But this one, I don't remember
18 exactly this exact meeting, but I take it that
19 it occurred, because I think, in fact, it may
20 have been on one of the calendars of mine.

21 Q. Well, it says down in the second --
22 beneath the line there, \$50 million reserves at
23 Graduate. Will have \$50 million CO. Perhaps
24 charge-off? I'm sorry, \$80 million charge-off
25 in DV by 6/30/97, gross number on accounts

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1 recollection at the time frame that there had
2 been discussions with Coopers & Lybrand
3 regarding establishing reserves on Graduate and
4 transferring them to DVOG.

5 Q. Are you saying you recall
6 specifically discussing this on April 18 in
7 this conference call or this discussion that is
8 referenced in these notes?

9 A. I can't say I specifically
10 remember.

11 Q. All right. But what are you then
12 saying? You don't remember this discussion,
13 but you remember conversations to this effect?

14 A. Right.

15 Q. All right.

16 A. I mean it's six years ago. I can't
17 say that, you know, I remember exactly what was
18 discussed at a certain date back then, but my
19 general recollection was, you know, this issue
20 was discussed several times around that time
21 frame, so that would be consistent with what's
22 noted here.

23 Q. Down at the bottom there, there's a
24 bullet point, becomes part of. Can you read
25 that?

52 (Pages 202 to 205)

Daniel Cancelmi

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1 A. Becomes part of PP&E/intangible as
2 part of purchase adjustment from SDN to AHERF.
3 Defers AR problem to be deferred, I guess. AR
4 problem to be deferred.

5 Q. Do you know what he's talking about
6 when he's talking about becomes part of
7 PP&E/intangible?

8 A. Yeah. Meaning when the reserves
9 were established on Graduate, it became part
10 of -- it was recorded by -- it was recorded in
11 intangible assets or included in goodwill and,
12 therefore, the goodwill would be amortized over
13 a length of time. And the ultimate life that
14 was chosen, I believe, was 35 years.

15 Q. Do you remember telling Coopers
16 about where these \$50 million of reserves came
17 from?

18 A. Yeah. I mean they -- it was my
19 understanding that they were aware that the
20 reserves were established on Graduate.

21 Q. But more specifically, that they
22 were -- they were created by debiting goodwill?

23 A. Actually, the goodwill piece of the
24 reserves came, you know, a little bit later on,
25 because I think there's a memo that's written

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1 that were going to be recorded as part of the
2 purchase price adjustment, in the same manner
3 recorded as goodwill.

4 Q. Let me show you another document,
5 if I may, and then perhaps come back to this
6 document. And the document that I want to show
7 you is a document that has been previously
8 marked in this case, I believe. Let me just
9 check it out here. Yeah, as Deposition
10 Exhibit 154.

11 A. (Witness reviewing document.)

12 Q. Do you recall this document?

13 A. Yes.

14 Q. You don't even probably need to
15 read it by now.

16 A. No.

17 Q. The first paragraph says, "as a
18 result of various items identified during the
19 due diligence process, certain restructuring
20 reserves have been recorded on the Graduate
21 hospitals' financial statements prior and
22 subsequent to the hospitals being acquired by
23 SDN. These reserves have been classified as
24 'below-the-line' expenses on the income
25 statement. With the recent integration of the

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1 where there was initial -- I thought it would
2 be recorded as restructuring costs.

3 But then I believe it was Spargo
4 told me, well, it would be recorded as part of
5 a purchase price.

6 Q. Adjustment.

7 A. Purchase price adjustment. And the
8 reason that stands out is I had known that we
9 had recorded other reserves as part of the
10 Graduate acquisition, and they hadn't been
11 recorded like that.

12 I just remember thinking, geez, you
13 know, those reserves potentially could have
14 been recorded in the same manner. And the
15 other reason is, a little bit later on, I don't
16 know exactly when, but certainly by the end of
17 June, the '97 audit, I was, again, I don't know
18 if it was Spargo or Adamczak told me that I
19 guess McConnell and Buettner had been
20 discussing recording about 60 some million
21 dollars of reserves related to various
22 physician, the Health America physician
23 practice acquisitions in Pittsburgh, on the
24 Pittsburgh side. And that there was estimated
25 losses related to those physician practices

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1 Graduate hospitals into the AHERF system on
2 May 1, 1997, all of the reserves were recorded
3 prior to May 1, 1997. Accordingly, since the
4 SDN financial statements are not consolidated
5 into AHERF's financials, AHERF's fiscal 1997
6 operating results will not be adversely
7 impacted by these reserves."

8 Do you see that?

9 A. Yes.

10 Q. Are the reserves that you're
11 referencing in that paragraph those that are
12 listed on the third page of this memo?

13 A. No.

14 Q. They are not?

15 A. No.

16 Q. "Since the reserves have been
17 recorded at various times (i.e., before and
18 after being acquired by SDN) the attachment to
19 this memorandum summarizes all the reserves
20 that have been recorded on the income
21 statement, which may have to be explained to an
22 outside party at some point."

23 So is this attachment then all the
24 reserves that have been recorded on the income
25 statement?

53 (Pages 206 to 209)